

CITY OF OSCEOLA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

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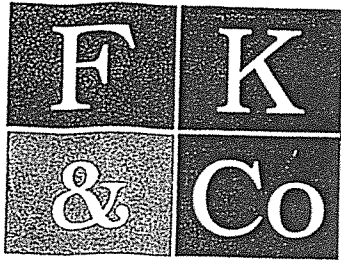
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City of Osceola

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2016)		
Fred P. Diehl	Mayor	January 1, 2016
Chris Dorsey	Council Member	January 1, 2016
Dan Hooper	Council Member	January 1, 2018
David Walkup	Council Member	January 1, 2016
Dr. George Fotiadis	Council Member	January 1, 2016
Dennis Page	Council Member	January 1, 2018
Ty Wheeler	City Administrator/Clerk	Indefinite
Mark Elcock	Attorney	Indefinite
(After January 2016)		
Thomas J. Kedley	Mayor	January 1, 2018
Doug Gay	Council Member	January 1, 2020
Dan Hooper	Council Member	January 1, 2018
David Walkup	Council Member	January 1, 2020
Dr. George Fotiadis	Council Member	January 1, 2020
Dennis Page	Council Member	January 1, 2018
Ty Wheeler	City Administrator/Clerk	Indefinite
Mark Elcock	Attorney	Indefinite

City of Osceola



FALLER, KINCHELOE & Co, PLC

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osceola, Iowa, (City) as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the City's legally separate component units. Accounting principles applicable to the cash basis of accounting require financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The amounts by which this departure would affect the receipts, disbursements and the cash basis balances of the aggregate discretely presented component units has not been determined.

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2016, or the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2016, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

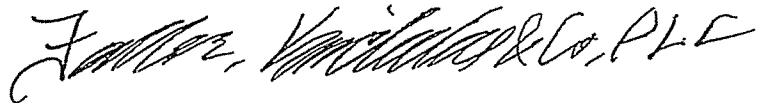
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 30, 2015 (which is not presented herein) and expressed unmodified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements. We expressed an adverse opinion on the financial statements of the aggregate discretely presented component units due to the omission of the legally separate component units. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the seven years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the City's Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 8 through 13 and 32 through 36 has not been subjected to the auditing procedures applied in the audit of the basic statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 17, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa
January 17, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Osceola (City) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 59.1%, or approximately \$5,236,000 from fiscal year 2015 to fiscal year 2016. Bond proceeds increased by \$3,137,000 and revenue note proceeds increased by \$2,515,000 due to refinancing of outstanding debt, and for funds needed for infrastructure projects in fiscal year 2016.
- Disbursements of the City's governmental activities decreased by 2.8%, or approximately \$350,000, in fiscal year 2016 from fiscal year 2015. Payment to refunding bond escrow agent disbursements decreased \$3,045,000, due to the pay-off of callable bonds in fiscal year 2015. However, capital projects disbursements increased approximately \$2,545,000 due to an increase in capital projects which were in progress during fiscal year 2016.
- The City's total cash basis net position increased 60.8%, or approximately \$1,898,000, from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities increased approximately \$1,904,000 and the cash basis net position of the business type activities decreased approximately \$6,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operation of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position present the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has three kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, and Trust & Agency funds, 3) the Debt Service Fund, 4) the Capital Projects Fund and, 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Fund. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide separate information for the Sewer Fund, considered to be a major fund of the City.

The required financial statements for proprietary funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from approximately \$2.413 million to approximately \$4.317 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service	\$ 845	800
Operating grants, contributions and restricted interest	620	573
Capital grants, contributions and restricted interest	1,482	2,051
General receipts:		
Property tax	2,548	2,485
Tax increment financing	545	587
Hotel motel tax	311	291
Local option sales tax	899	866
Gaming wager tax	1,121	1,156
Other city tax	-	8
Unrestricted interest on investments	7	9
Bond proceeds	3,137	-
Revenue note proceeds	2,515	-
Miscellaneous	62	30
Total receipts	14,092	8,856
Disbursements:		
Public safety	1,219	1,198
Public works	1,485	1,343
Culture and recreation	903	813
Community and economic development	1,242	1,513
General government	890	683
Debt service	1,418	1,457
Capital projects	5,102	2,557
Payment to bond refunding agent	-	3,045
Total disbursements	12,259	12,609
Change in cash basis net position before transfers	1,833	(3,753)
Transfers, net	71	71
Change in cash basis net position	1,904	(3,682)
Cash basis net position beginning of year	2,413	6,095
Cash basis net position end of year	\$ 4,317	2,413

The City's total receipts for governmental activities increased 59.1%, or approximately \$5,236,000. The total cost of all programs and services decreased approximately \$350,000, or 2.8%, with no new programs added this year. The increase in receipts was the result of bond proceeds and revenue note proceeds received in fiscal year 2016. The decrease in program costs was the result of a payment of approximately \$3,045,000 to the refunding bond escrow agent in fiscal year 2015, which was offset by an increase of approximately \$2,545,000 in capital project costs in fiscal year 2016.

The City maintained a slight increase in the property tax dollar request for fiscal year 2016. Property tax receipts increased by approximately \$63,000 in fiscal year 2016. Property tax receipts are budgeted to remain relatively the same in fiscal year 2017.

The cost of all governmental activities this year was approximately \$12.259 million compared to approximately \$12.609 million last year. However, as shown on the Statement of Activities and Net Position on page 15, the amount taxpayers ultimately financed for these activities was \$9.312 million because some of the cost was paid by those directly benefited from the programs (approximately \$845,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (approximately \$2,103,000). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2016 from approximately \$3,423,000 to approximately \$2,947,000, principally due to decreased capital grants and contributions in fiscal year 2016 compared to fiscal year 2015.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 1,319	1,287
General receipts:		
Miscellaneous	2	7
Total receipts	<u>1,321</u>	<u>1,294</u>
Disbursements:		
Sewer	<u>1,255</u>	<u>1,166</u>
Total disbursements	<u>1,255</u>	<u>1,166</u>
Change in cash basis net position before transfers	66	128
Transfers, net	<u>(72)</u>	<u>(71)</u>
Change in cash basis net position	(6)	57
Cash basis net position beginning of year	<u>708</u>	<u>651</u>
Cash basis net position end of year	<u>\$ 702</u>	<u>708</u>

Total business type activities receipts for the fiscal year were approximately \$1.321 million compared to approximately \$1.294 million last year. The increase was due primarily due to an increase in charges for service receipts. The cash balance decreased approximately \$6,000 from the prior year due to an increase in costs. Total disbursements for the fiscal year increased 7.6% to approximately \$1,255,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of \$4,316,528, an increase of more than \$1,903,000 above last year's total of \$1,903,547. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$492,054 from the prior year to \$1,681,904. The City is attempting to maintain the General Fund on a status quo basis from year to year.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased by \$31,384 from the prior year to \$71,813. The monies in this fund can only be spent on the Clarke County Reservoir Commission.
- The Debt Service Fund cash balance increased by \$1,482,797 from the prior year to \$1,493,591. The City is holding \$1,488,701 with an escrow agent to refund bonds which are callable on June 1, 2017.
- The Capital Projects Fund cash balance decreased by \$46,203 to \$372,154 at June 30, 2016. This decrease can be attributed to ongoing capital projects which were funded in previous fiscal years.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance decreased by \$5,849 to \$707,928. This decrease was due to costs incurred on capital projects in fiscal year 2016.

BUDGETARY HIGHLIGHTS

During the course of the year, the City amended its budget one time.

The City's receipts were \$3,138,464 less than budgeted. This was primarily due to the City receiving less miscellaneous receipts than anticipated.

Disbursements in the community and economic development, general government and debt service functions were \$1,083,661, \$62,923 and \$23,337 more than the amended budget amounts.

The original budget for fiscal year 2016 was approved by the City Council on March 3, 2015, and later amended on June 7, 2016. The budget amendment was necessitated because of capital improvement projects and new fire equipment.

DEBT ADMINISTRATION

At June 30, 2016, the City had approximately \$16,656,000 in bonds and other long-term debt outstanding, compared to approximately \$12,463,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30, 2016	2015
General obligation bonds and notes	\$ 10,156	8,247
Revenue bonds	3,895	4,100
Revenue notes	2,517	-
Lease-purchase agreement	88	116
Total	\$ 16,656	12,463

The City incurred an additional \$5,651,075 in bond and revenue note debt during the fiscal year. This bond money was used to advance crossover an existing debt issue, to make infrastructure improvements, to purchase capital equipment and to enter into a deferred land purchase agreement with the Clarke County Reservoir Commission.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$10,156,000 is significantly below its constitutional debt limit of \$12,556,688. Additional information about the City's long-term debt is presented in Notes 3 and 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Osceola's elected and appointed officials and citizens considered many factors when setting the fiscal year 2016-17 budget.

During the past few years, several outstanding bond issues were refinanced through either a current redemption or advanced refunding of future maturities. As a result, interest rates were significantly lowered and bond principal payment schedule modified, resulting a significant reduction in future debt service payments. However, the City remains concerned about the commercial/industrial property tax roll-back and backfill. It is assumed that the State Legislature will eventually eliminate it.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayer, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ty Wheeler, City Administrator/Clerk, 115 North Fillmore, Box 465, Osceola, IA 50213.

Basic Financial Statements

City of Osceola

Exhibit A

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:							
Governmental activities:							
Public safety	\$ 1,218,936	68,882	800	-	(1,149,254)	-	(1,149,254)
Public works	1,484,738	507,363	610,351	-	(367,024)	-	(367,024)
Culture and recreation	902,618	197,536	9,302	-	(695,780)	-	(695,780)
Community and economic development	1,242,204	53,567	-	-	(1,188,637)	-	(1,188,637)
General government	890,592	17,197	-	-	(873,395)	-	(873,395)
Debt service	1,417,707	-	-	4,890	(1,412,817)	-	(1,412,817)
Capital projects	5,102,454	-	-	1,477,337	(3,625,117)	-	(3,625,117)
Total governmental activities	12,259,249	844,545	620,453	1,482,227	(9,312,024)	-	(9,312,024)
Business type activities:							
Sewer	1,254,999	1,319,301	-	-	-	64,302	64,302
Total business type activities	1,254,999	1,319,301	-	-	-	64,302	64,302
Total	\$ 13,514,248	2,163,846	620,453	1,482,227	(9,312,024)	64,302	(9,247,722)
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					1,690,709	-	1,690,709
Debt service					857,518	-	857,518
Tax increment financing					544,962	-	544,962
Hotel motel tax					311,080	-	311,080
Local option sales tax					898,829	-	898,829
Gaming wager tax					1,120,571	-	1,120,571
Unrestricted interest on investments					7,325	58	7,383
Bond proceeds (net of premium of \$6,507)					3,136,507	-	3,136,507
Revenue note proceeds					2,514,568	-	2,514,568
Miscellaneous					61,662	1,631	63,293
Transfers					71,840	(71,840)	-
Total general receipts and transfers					11,215,571	(70,151)	11,145,420
Change in cash basis net position					1,903,547	(5,849)	1,897,698
Cash basis net position beginning of year, as restated					2,412,981	707,928	3,120,909
Cash basis net position end of year					\$ 4,316,528	702,079	5,018,607
Cash Basis Net Position							
Restricted:							
Nonexpendable:							
Library					\$ 1,759	-	1,759
Cemetery perpetual care					106,382	-	106,382
Expendable:							
Streets					50,503	-	50,503
Tax increment financing					204,903	-	204,903
Library					325,184	-	325,184
Capital projects					372,154	-	372,154
Debt service					1,493,591	309,454	1,803,045
Other purposes					818,519	-	818,519
Unrestricted					943,533	392,625	1,336,158
Total cash basis net position					\$ 4,316,528	702,079	5,018,607

See notes to financial statements.

City of Osceola

Exhibit B

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2016

	General	Special Revenue Local Option Sales Tax	Debt Service	Capital Projects	Nonmajor	Total
Receipts:						
Property tax	\$1,558,897	-	857,518	-	131,812	2,548,227
Tax increment financing	-	-	-	-	544,963	544,963
Other city tax	1,439,464	898,829	-	-	-	2,338,293
Licenses and permits	62,952	-	-	-	-	62,952
Use of money and property	40,891	-	4,890	-	5,368	51,149
Intergovernmental	-	-	-	1,255,260	609,122	1,864,382
Charges for service	663,438	-	-	-	-	663,438
Miscellaneous	283,591	-	-	77,073	5,813	366,477
Total receipts	4,049,233	898,829	862,408	1,332,333	1,297,078	8,439,881
Disbursements:						
Operating:						
Public safety	974,395	-	-	-	244,541	1,218,936
Public works	557,384	43,537	-	-	883,817	1,484,738
Culture and recreation	768,124	-	-	-	134,494	902,618
Community and economic development	342,704	823,908	-	-	75,592	1,242,204
General government	811,183	-	-	-	79,409	890,592
Debt service	-	-	1,417,707	-	-	1,417,707
Capital projects	2,631,379	-	-	2,471,075	-	5,102,454
Total disbursements	6,085,169	867,445	1,417,707	2,471,075	1,417,853	12,259,249
Excess (deficiency) of receipts over (under) disbursements	(2,035,936)	31,384	(555,299)	(1,138,742)	(120,775)	(3,819,368)
Other financing sources (uses):						
Bond proceeds (net of premium of \$6,507)	725,000	-	1,488,701	922,806	-	3,136,507
Revenue note proceeds	2,500,000	-	-	14,568	-	2,514,568
Transfers in	50,000	-	549,395	155,165	610,006	1,364,566
Transfers out	(747,010)	-	-	-	(545,716)	(1,292,726)
Total other financing sources (uses)	2,527,990	-	2,038,096	1,092,539	64,290	5,722,915
Change in cash balances	492,054	31,384	1,482,797	(46,203)	(56,485)	1,903,547
Cash balances beginning of year	1,189,850	40,429	10,794	418,357	753,551	2,412,981
Cash balances end of year	\$1,681,904	71,813	1,493,591	372,154	697,066	4,316,528
Cash Basis Fund Balances						
Nonspendable:						
Library	\$ -	-	-	-	1,759	1,759
Cemetery perpetual care	-	-	-	-	106,382	106,382
Restricted for:						
Streets	-	-	-	-	50,503	50,503
Tax increment financing	-	-	-	-	204,903	204,903
Library	-	-	-	-	325,184	325,184
Capital projects	-	-	-	372,154	-	372,154
Debt service	-	-	1,493,591	-	-	1,493,591
Other purposes	738,371	71,813	-	-	8,335	818,519
Unassigned	943,533	-	-	-	-	943,533
Total cash basis fund balances	\$1,681,904	71,813	1,493,591	372,154	697,066	4,316,528

See notes to financial statements.

City of Osceola

Exhibit C

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2016

	Enterprise
	Sewer
Operating receipts:	
Charges for service	\$ 1,319,301
Miscellaneous	1,631
Total operating receipts	<u>1,320,932</u>
Operating disbursements:	
Business type activities	757,971
Total operating disbursements	<u>757,971</u>
Excess of operating receipts over operating disbursements	<u>562,961</u>
Non-operating receipts (disbursements):	
Interest on investments	58
Debt service	(314,474)
Capital projects	(182,554)
Net non-operating receipts (disbursements)	<u>(496,970)</u>
Excess of receipts over disbursements	<u>65,991</u>
Other financing sources:	
Transfers out	(71,840)
Total other financing sources	<u>(71,840)</u>
Change in cash balances	(5,849)
Cash balances beginning of year	<u>707,928</u>
Cash balances end of year	<u>\$ 702,079</u>
Cash Basis Fund Balances	
Restricted for debt service	\$ 309,454
Unrestricted	<u>392,625</u>
Total cash basis fund balances	<u>\$ 702,079</u>

See notes to financial statements.

City of Osceola

Exhibit D

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Fiduciary Fund

As of and for the year ended June 30, 2016

	Agency
	Friends of
	Depot
Additions:	
Miscellaneous	\$ -
Total additions	-
Deductions:	
Miscellaneous	20,823
Total deductions	20,823
Change in cash balances	(20,823)
Cash balances beginning of year	20,823
Cash balances end of year	\$ -

See notes to financial statements.

City of Osceola

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Osceola (City) is a political subdivision of the State of Iowa located in Clarke County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general governmental services. The City also provides sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although their operational or financial relationship with the City are significant.

Excluded Component Units

- The Osceola Public Library Foundation was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Osceola Public Library Foundation is to support the activities of the Osceola, Iowa public library.
- The Osceola Volunteer Firefighter's Association was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Osceola Volunteer Firefighter's Association is to support the activities of the Osceola, Iowa fire department.
- The Osceola Municipal Waterworks (Waterworks) was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Waterworks is governed by a five member Board of Trustees appointed by the Mayor and approved by the City Council. The Waterworks' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Waterworks administrative office.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Clarke County Reservoir Commission, Clarke County Assessor's Conference Board, Emergency Management Commission, Clarke County Development Corporation, the Main Street Board and the Clarke County Jail and Law Enforcement Center.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds, the proprietary fund and the fiduciary fund. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Special Revenue, Local Option Sales Tax Fund is used to account for local option sales tax collections and related disbursements of these funds in accordance with the ballot referendum.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

Additionally, the City reports a fiduciary fund to account for assets held by the City as an agent for the Friends of Depot.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the community and economic development, general government and debt service functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in the obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2016, an escrow agent held the following investments for the City:

Investment	Fair Value	Maturity
U.S. Treasury Note	\$ 22,684	December 1, 2016
U.S. Treasury Note	1,466,017	June 1, 2017
Total	<u>\$ 1,488,701</u>	

The City uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

The recurring fair value of the U.S. Treasury Notes was determined using quoted market prices. (Level 1 inputs).

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$309,454 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes, and the revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 2,711,000	273,340	205,000	102,704	2,916,000	376,044
2018	1,280,000	154,023	210,000	97,784	1,490,000	251,807
2019	1,305,000	130,120	210,000	94,634	1,515,000	224,754
2020	1,335,000	104,510	215,000	90,854	1,550,000	195,364
2021	845,000	77,310	220,000	86,984	1,065,000	164,294
2022	865,000	60,410	225,000	82,364	1,090,000	142,774
2023	880,000	43,110	230,000	77,301	1,110,000	120,411
2024	490,000	22,373	235,000	71,781	725,000	94,154
2025	275,000	11,400	240,000	65,613	515,000	77,013
2026	170,000	4,250	250,000	59,313	420,000	63,563
2027	-	-	255,000	51,813	255,000	51,813
2028	-	-	265,000	44,162	265,000	44,162
2029	-	-	270,000	36,213	270,000	36,213
2030	-	-	280,000	28,112	280,000	28,112
2031	-	-	290,000	19,012	290,000	19,012
2032	-	-	295,000	9,588	295,000	9,588
	<u>\$ 10,156,000</u>	<u>880,846</u>	<u>3,895,000</u>	<u>1,018,232</u>	<u>14,051,000</u>	<u>1,899,078</u>

Sewer Revenue Improvement and Refunding Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$4,700,000 of sewer revenue improvement and refunding bonds issued May 31, 2012. The bonds were issued for the purpose of financing construction of improvements to the municipal sanitary sewer system and refunding the City's outstanding Series 2003 and 1994 sewer revenue bonds. The bonds are payable solely and only out of the net earnings of the Sewer Utility System and are payable through 2032. Annual principal and interest payments on the bonds are expected to require less than 55% of net receipts. The total principal and interest remaining to be paid on the bonds is \$4,913,232. For the current year, principal and interest paid and total customer net receipts were \$307,704 and \$562,961, respectively.

The resolutions providing for the issuance of the sewer revenue improvement and refunding bonds include the following provisions:

- (a) The bond will only be redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- (b) The City shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a sewer revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) A sewer reserve fund shall be established and maintained in the amount of \$309,313. The reserve fund will be used for the payment of principal and interest whenever funds on deposit in the sinking fund are insufficient.
- (e) All users of the system, including the City, are required to be charged for service.

The City did not fund, on a monthly basis, the sewer revenue bond sinking account as required. Also, the City is not being charged for sewer service as required.

Interim Revenue Project Notes

On June 19, 2015, the City entered into an interest free interim revenue project note agreement with the Iowa Finance Authority for up to \$67,500 to be used for the purpose of paying costs of planning, designing and constructing improvements and extensions to the sanitary sewer system. During the year ended June 30, 2016, the City drew \$14,568 on the notes, and as of June 30, 2016, \$17,346 is owed in relation to these notes.

The notes were issued pursuant to Chapters 76.13 and 384.24A of the Code of Iowa in anticipation of the receipt of and are payable from the proceeds of an authorized loan agreement and the corresponding issuance of sewer revenue bonds. The interim revenue project notes have a term of three years.

Casino Revenue Loan Agreement Anticipation Project Note

On May 18, 2016, the City incurred \$2,500,000 of a casino revenue loan agreement anticipation project note. The note was issued pursuant to Chapters 76.13 of the Code of Iowa in anticipation of the receipt of and are payable from the proceeds of an authorized loan agreement and the corresponding issuance of casino revenue bonds. The casino revenue loan agreement anticipation project note matures on September 1, 2016. As of June 30, 2016, \$2,500,000 is owed in relation to these notes.

General Obligation Corporate Purpose and Refunding Bonds, Series 2015

In November 2015, the City issued \$3,005,000 of general obligation corporate purpose and refunding bonds, Series 2015. The bonds were issued for the purpose of constructing infrastructure improvements, purchase of equipment and for the crossover advance refunding of \$1,455,000 of general obligation corporate purpose bonds dated August 1, 2009. The notes will be called on June 1, 2017.

The City entered into an escrow agreement whereby the proceeds from the general obligation corporate purpose and refunding bonds, Series 2015, were converted into U.S. government securities. These securities were placed in an escrow account for the express purpose of paying the principal and interest on the refunded general obligation capital loan notes as they become due. After the principal and interest on all of the outstanding notes have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the City. The transactions and balances of the escrow account are recorded by the City since the refunded debt is not considered extinguished.

The refunding was undertaken to reduce total debt service payments over the next eight years by \$90,382 and resulted in an economic gain of \$82,522.

(4) Lease Purchase Agreements

On August 19, 2014, the City entered into a lease-purchase agreement to lease a snow plow. The lease term is for five years, with interest at 2.25% per annum, payable from road use tax receipts. Road use tax receipts are generally projected to produce 100% of the debt service requirements over the life of the agreement. The agreement states the obligation will not constitute a general obligation of the City but will be payable solely and only from annual road use tax monies received by the City from the State of Iowa. The principal balance owed on the road use tax lease-purchase agreement is \$70,620 as of June 30, 2016.

On April 8, 2015, the City entered into a lease-purchase agreement to lease a track loader. The lease term is for four years, with interest at 2.75% per annum, payable from sewer charges for service receipts. Sewer charges for service receipts are generally projected to produce 100% of the debt service requirements over the life of the agreement. The agreement states the obligation will not constitute a general obligation of the City but will be payable solely and only from sewer charges for services receipts. The principal balance owed on the sewer charges for services receipts lease-purchase agreement is \$17,858 as of June 30, 2016.

The following is a schedule of the future minimum lease payments and the present value of the net minimum lease payments under the agreements in effect at June 30, 2016:

Year Ended June 30,	Snow Plow	Track Loader	Total
2017	\$ 24,952	6,267	31,219
2018	24,952	6,267	31,219
2019	24,952	6,267	31,219
Minimum Lease Payments	74,856	18,801	93,657
Less Amount Representing Interest	(4,236)	(943)	(5,179)
Present Value of Minimum Lease Payments	\$ 70,620	17,858	88,478

During the year ended June 30, 2016, the City made principal payments of \$27,774 and interest payments of \$3,445 on the above two lease purchase agreements.

(5) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of pay and the City contributed 8.93% for a total rate of 14.88%. Protection occupation members contributed 6.56% of pay and the City contributed 9.84% for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 were \$149,818.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability of \$678,831 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.0137402%, which was an increase of 0.002116% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows and deferred inflows totaled \$81,635, \$204,535 and \$279,539, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of Inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28 %	2.04 %
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$ 1,511,498	678,831	(23,589)

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(6) **Interfund Loan**

During the year ended June 30, 2016, the General Fund paid for \$82,589 for the purchase of street equipment. The Special Revenue, Road Use Tax Fund will reimburse the General Fund for this purchase at an amount of \$20,647 per year for the next four fiscal years. The balance on this loan at June 30, 2016 was \$82,589.

(7) **Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 32 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you go basis. The most recent active member monthly premiums for the City and the plan members are \$588 for single coverage, \$1,176 for employee/spouse coverage, \$1,118 for employee/dependent coverage, and \$1,764 for family coverage. For the year ended June 30, 2016, the City contributed \$440,209 and plan members eligible for benefits contributed \$34,301 to the plan.

(8) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory hours payable to employees at June 30, 2016, primarily relating to the General Fund is \$128,151.

The liability has been computed based on the rates of pay in effect at June 30, 2016.

(9) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise: Sewer	<u>\$ 50,000</u>
Special Revenue: Road Use Tax	General	<u>130,000</u>
Special Revenue: Employee Benefits	General	<u>476,886</u>
Debt Service	General	34,915
	Special Revenue: Urban Renewal Tax Increment	492,640
	Enterprise: Sewer	<u>21,840</u>
		<u>549,395</u>
Capital Projects	General	102,089
	Special Revenue: Road Use Tax	<u>53,076</u>
		<u>155,165</u>
Permanent: Cemetery Perpetual Care	General	<u>3,120</u>
		<u>\$ 1,364,566</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(10) **Casino Lease**

The City of Osceola and the Waterworks have entered into a lease agreement with HGI-Lakeside, LLC and its successors (Casino) for certain real estate surrounding West Lake and the use of the lake in the operation of a casino. Unless the Casino terminates the lease, this lease is renewable by the Casino every five years, with the term of the lease extending through the year 2047.

As part of this lease, the City is to receive 1.25% of adjusted gross gambling receipts per year from the Casino. The total amount received by the City in fiscal year 2016 in relation to this was \$618,687. The City is also receiving 0.5% of adjusted gross gambling receipts from the Casino. The total amount received by the City in fiscal year 2016 in relation to this was \$250,942. In addition, the City is also receiving an additional 0.5% of adjusted gross gambling receipts from the Casino. These receipts are paid direct by the Casino to a bank account controlled by the Clarke County Reservoir Commission. The total amount received by the City in fiscal year 2016 in relation to this was \$250,942.

(11) **Rebate Agreements**

The City has entered into various rebate agreements to assist in certain urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for the construction of buildings and certain infrastructure improvements by the developers.

The total to be paid by the City under the agreements is not to exceed \$895,000. The total amount rebated during the year ended June 30, 2016 was \$46,994. The outstanding balance of the agreements at June 30, 2016 was \$214,876.

These agreements are not a general obligation of the City. In addition, the agreements are not subject to the constitutional debt limitation of the City because these agreements are subject to annual appropriation by the City Council.

(12) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(13) Contingencies

The City participates in a number of Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

The City entered into an agreement with Clarke County, Clarke County Development Corporation, and The Village, Inc. This agreement states that the City will guarantee 25% of the United States Department of Agriculture loan in relation to construction and equipping of The Village, Inc. City personnel believe this agreement can be voided, at which time the City would have no potential liability.

(14) Commitments

The City has entered into an agreement with the Waterworks for sewer and garbage billing services. The City agrees to pay the Waterworks \$1,500 per month for fiscal years 2016-2017, and \$1,600 per month for fiscal years 2018-2020.

The City entered into an agreement with the South Central Iowa Landfill Agency (Agency) which permits the City's solid waste contractor to dispose of the waste at the Agency. Since the City is not a member of the Agency, the City's agreement with the Agency states that the City will pay \$5,000 per month until the amount of \$350,000 is paid. At June 30, 2016, the City has paid \$300,000 toward this obligation, and will owe an additional \$50,000 until paid. The total amount paid by the City to the Agency in fiscal year 2016 was \$60,000 in relation to this agreement.

The City entered into an agreement with a private contractor for residential solid waste collection. The agreement is through September 30, 2018. The amount paid to the contractor by the City is a set amount per household, and can be increased each year by the change in the consumer price index. In addition, the amount paid by the contractor can also be increased if the dumping fees at the landfill are increased. The total amount paid to the private contractor by the City for residential solid waste collection was \$274,769 in fiscal year 2016.

The City pays its local option sales tax receipts to the Clarke County Reservoir Commission (Commission). The City will pay the Commission all of its local option sales tax receipts until all the debt incurred by the Commission is fully paid. The total local option sales tax receipts paid by the City to the Commission totaled \$823,908 in fiscal year 2016.

The City has entered into various construction projects for infrastructure repair and construction. As of June 30, 2016, approximately \$85,000 remains to be paid on these projects. This work will be paid for as work progresses in fiscal year 2017. The City intends to pay for these projects with federal grants and from existing cash reserves.

The City received a \$600,000 federal grant, with the City providing \$1,256,500 in local match. As of the date the financial statements were available to be issued, minimal costs were incurred on this project, as this project was still in the design and engineering phase.

In June 2016, the City awarded a contract for approximately \$1.344 million for a street improvement project. It is anticipated this project will be complete in fiscal year 2017. The City intends to pay for this project from borrowed monies and from existing cash reserves.

(15) Subsequent Events

In fiscal year 2017, the City borrowed \$500,000 to partially fund the street improvement project, as discussed in note 14 above.

In fiscal year 2017, the City issued a \$2,500,000 Casino Revenue Note. This note was issued to refinance the casino revenue loan agreement anticipation project note which matured on September 1, 2016, as discussed in note 3 above.

The City has evaluated all subsequent events through January 17, 2017, the date the financial statements were available to be issued.

(16) New Accounting Pronouncement

The City adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

Other Information

City of Osceola

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2016

	(Unaudited)						Total	Budgeted Amounts		Final to Total Variance
	Component Unit			Original	Final					
	Governmental Funds Actual	Proprietary Funds Actual	Osceola Municipal Waterworks Actual							
Receipts:										
Property tax	\$ 2,548,227	-	-	-	2,548,227	2,364,240	2,364,240	2,364,240	183,987	
Tax increment financing	544,963	-	-	-	544,963	547,988	547,988	547,988	(3,025)	
Other city tax	2,338,293	-	-	-	2,338,293	2,260,280	2,260,280	2,250,280	88,013	
Licenses and permits	62,952	-	-	-	62,952	69,000	69,000	58,000	4,952	
Use of money and property	51,149	58	267,904	-	319,111	10,250	10,250	10,250	308,861	
Intergovernmental	1,864,382	-	-	-	1,864,382	960,708	960,708	2,119,417	(255,035)	
Charges for service	663,438	1,319,301	1,626,491	-	3,609,230	3,967,901	4,073,867	4,073,867	(464,637)	
Miscellaneous	366,477	1,631	111,312	-	479,420	149,000	149,000	3,481,000	(3,001,580)	
Total receipts	8,439,881	1,320,990	2,005,707	-	11,766,578	10,329,367	14,905,042	14,905,042	(3,138,464)	
Disbursements:										
Public safety	1,218,936	-	-	-	1,218,936	1,234,822	1,264,950	1,264,950	46,014	
Public works	1,484,738	-	-	-	1,484,738	1,364,013	1,581,470	1,581,470	96,732	
Culture and recreation	902,618	-	-	-	902,618	929,488	954,068	954,068	51,450	
Community and economic development	1,242,204	-	-	-	1,242,204	158,543	158,543	158,543	(1,083,661)	
General government	890,592	-	-	-	890,592	625,473	827,669	827,669	(62,923)	
Debt service	1,417,707	-	-	-	1,417,707	1,394,370	1,394,370	1,394,370	(23,337)	
Capital projects	5,102,454	-	-	-	5,102,454	2,833,150	6,000,000	897,546	897,546	
Business type activities	-	1,254,999	2,081,012	-	3,336,011	5,710,441	3,692,599	3,692,599	356,588	
Total disbursements	12,259,249	1,254,999	2,081,012	-	15,595,260	14,250,300	15,873,669	15,873,669	278,409	
Excess (deficiency) of receipts over (under) disbursements	(3,819,368)	65,991	(75,305)	-	(3,828,682)	(3,920,933)	(968,627)	(968,627)	(2,860,055)	
Other financing sources, net	5,722,915	(71,840)	-	-	5,651,075	3,865,000	2,520,491	2,520,491	3,130,584	
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,903,547	(5,849)	(75,305)	-	1,822,393	(55,933)	1,551,864	1,551,864	270,529	
Balances beginning of year	2,412,981	707,928	286,107	-	3,407,016	2,522,277	2,522,277	2,522,277	884,739	
Balances end of year	\$ 4,316,528	702,079	210,802	-	5,229,409	2,466,344	4,074,141	4,074,141	1,155,268	

See accompanying independent auditor's report.

City of Osceola

Notes to Other Information - Budgetary Reporting

June 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,623,369. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the community and economic development, general government and debt service functions.

City of Osceola

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Two Years*
(In Thousands)

Other Information

	2016	2015
City's proportion of the net pension liability	0.013740%	0.011625%
City's proportionate share of the net pension liability	\$ 679	461
City's covered employee payroll	\$ 1,559	1,522
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	43.55%	30.29%
IPERS' net position as a percentage of the total pension liability.	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Osceola

Schedule of City Contributions

Iowa Public Employees' Retirement System
Last 10 Fiscal Years
(In Thousands)

Other Information

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contribution	\$ 150	146	142	153	153	124	122	107	101	96
Contributions in relation to the statutorily required contribution	(150)	(146)	(142)	(153)	(153)	(124)	(122)	(107)	(101)	(96)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 1,618	1,559	1,522	1,673	*	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	9.27%	9.36%	9.33%	9.15%	*	*	*	*	*	*

* - City's covered employee payroll information was not readily available. Therefore, contributions as a percentage of covered employee payroll could not be calculated.

See accompanying independent auditor's report.

City of Osceola

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Supplementary Information

City of Osceola
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

Schedule 1

As of and for the year ended June 30, 2016

	Special Revenue					Permanent		
	Road Use Tax	Employee Benefits	Urban Renewal Tax Increment	Library	Police Forfeiture	Library	Cemetery Perpetual Care	Total
Receipts:								
Property tax	\$ -	131,812	-	-	-	-	-	131,812
Tax increment financing	-	-	544,963	-	-	-	-	544,963
Use of money and property	-	-	-	5,366	2	-	-	5,368
Intergovernmental	609,122	-	-	-	-	-	-	609,122
Miscellaneous	1,229	-	-	3,784	800	-	-	5,813
Total receipts	610,351	131,812	544,963	9,150	802	-	-	1,297,078
Disbursements:								
Operating:								
Public safety	-	243,441	-	-	1,100	-	-	244,541
Public works	757,694	126,123	-	-	-	-	-	883,817
Culture and recreation	-	130,762	-	3,732	-	-	-	134,494
Community and economic development	-	28,598	46,994	-	-	-	-	75,592
General government	-	79,409	-	-	-	-	-	79,409
Total disbursements	757,694	608,333	46,994	3,732	1,100	-	-	1,417,853
Excess (deficiency) of receipts over (under) disbursements	(147,343)	(476,521)	497,969	5,418	(298)	-	-	(120,775)
Other financing sources (uses):								
Transfers in	130,000	476,886	-	-	-	-	3,120	610,006
Transfers out	(53,076)	-	(492,640)	-	-	-	-	(545,716)
Total other financing sources (uses)	76,924	476,886	(492,640)	-	-	-	3,120	64,290
Change in cash balances	(70,419)	365	5,329	5,418	(298)	-	3,120	(56,485)
Cash balances beginning of year	120,922	(365)	199,574	319,766	8,633	1,759	103,262	753,551
Cash balances end of year	\$ 50,503	-	204,903	325,184	8,335	1,759	106,382	697,066
Cash Basis Fund Balances								
Nonspendable:								
Library	\$ -	-	-	-	-	1,759	-	1,759
Cemetery perpetual care	-	-	-	-	-	-	106,382	106,382
Restricted for:								
Streets	50,503	-	-	-	-	-	-	50,503
Tax increment financing	-	-	204,903	-	-	-	-	204,903
Library	-	-	-	325,184	-	-	-	325,184
Other purposes	-	-	-	-	8,335	-	-	8,335
Total cash basis fund balances	\$ 50,503	-	204,903	325,184	8,335	1,759	106,382	697,066

See accompanying independent auditor's report.

City of Osceola

Schedule 2

Schedule of Indebtedness

Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Bonds and Notes:									
Corporate Purpose Refunding	August 1, 2009	1.25 to 4.40%	\$ 2,750,000	1,805,000	-	170,000	1,635,000	72,058	-
Sewer Improvement Bond	November 30, 2011	0.65 to 2.10%	3,360,000	2,425,000	-	470,000	1,955,000	39,938	-
Corporate Purpose and Refunding	February 15, 2013	1.75%	101,000	42,000	-	21,000	21,000	735	-
Solid Waste Disposal Note	June 17, 2014	2.00 to 2.75%	4,035,000	3,975,000	-	435,000	3,540,000	82,375	-
Corporate Purpose and Refunding, Series 2015	October 30, 2015	0.00%	125,000	-	125,000	125,000	-	-	-
	November 19, 2015	2.00 to 2.50%	3,005,000	-	3,005,000	-	3,005,000	-	-
Total				\$ 8,247,000	3,130,000	1,221,000	10,156,000	195,106	-
Revenue Bonds:									
Sewer Revenue Improvement and Refunding	May 31, 2012	0.60 to 3.25%	\$ 4,700,000	4,100,000	-	205,000	3,895,000	102,704	-
Revenue Notes:									
Interim Revenue Project Notes	June 19, 2015	0.00%	\$ 67,500	2,778	14,568	-	17,346	-	-
Casino Revenue Loan Agreement	May 18, 2016	3.97%	2,500,000	-	2,500,000	-	2,500,000	-	-
Anticipation Project Note				\$ 2,778	2,514,568	-	2,517,346	102,704	-
Lease Purchase Agreements:									
Equipment	August 19, 2014	2.25%	\$ 116,625	92,816	-	22,196	70,620	2,756	-
Equipment	April 8, 2015	2.75%	23,436	23,436	-	5,578	17,858	689	-
				\$ 116,252	-	27,774	88,478	3,445	-

See accompanying independent auditor's report.

City of Osceola
Bond and Note Maturities
June 30, 2016

Schedule 3

General Obligation Bonds and Notes											
Year Ending June 30,	Corporate Purpose Issued August 1, 2009		Refunding Issued November 30, 2011		Sewer Improvement Bond Issued February 15, 2013		Corporate Purpose and Refunding Issued June 17, 2014		Corporate Purpose and Refunding, Series 2015 Issued November 19, 2015		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2017	3.60%	\$ 1,635,000	1.40%	\$ 480,000	1.75%	\$ 21,000	2.00%	\$ 450,000	0.70%	\$ 125,000	2,711,000
2018	-	-	1.65%	485,000	-	-	2.00%	455,000	0.85%	340,000	1,280,000
2019	-	-	1.90%	490,000	-	-	2.00%	465,000	1.10%	350,000	1,305,000
2020	-	-	2.10%	500,000	-	-	2.00%	475,000	1.35%	360,000	1,335,000
2021	-	-	-	-	-	-	2.00%	480,000	1.55%	365,000	845,000
2022	-	-	-	-	-	-	2.00%	495,000	2.00%	370,000	865,000
2023	-	-	-	-	-	-	2.25%	505,000	2.50%	375,000	880,000
2024	-	-	-	-	-	-	2.75%	105,000	2.10%	385,000	490,000
2025	-	-	-	-	-	-	2.75%	110,000	2.50%	165,000	275,000
2026	-	-	-	-	-	-	-	-	2.50%	170,000	170,000
		<u>\$ 1,635,000</u>		<u>\$ 1,955,000</u>		<u>\$ 21,000</u>		<u>\$ 3,540,000</u>		<u>\$ 3,005,000</u>	<u>10,156,000</u>

Revenue Bonds		
Sewer Revenue Improvement and Refunding Issued May 31, 2012		
Year Ending June 30,	Interest Rates	Amount
2017	1.300%	\$ 205,000
2018	1.500%	210,000
2019	1.800%	210,000
2020	1.800%	215,000
2021	2.100%	220,000
2022	2.250%	225,000
2023	2.400%	230,000
2024	2.625%	235,000
2025	2.625%	240,000
2026	3.000%	250,000
2027	3.000%	255,000
2028	3.000%	265,000
2029	3.000%	270,000
2030	3.250%	280,000
2031	3.250%	290,000
2032	3.250%	295,000
		<u>\$ 3,895,000</u>

See accompanying independent auditor's report.

City of Osceola

Schedule 4

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Ten Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Receipts:										
Property tax	\$ 2,548,227	2,485,444	2,406,299	2,315,379	2,226,483	1,892,950	2,102,099	1,895,269	1,712,784	1,682,743
Tax increment financing	544,963	587,337	536,385	640,381	895,130	1,781,622	1,057,921	1,404,735	789,314	678,536
Other city tax	2,338,293	2,320,501	2,151,746	1,972,307	1,999,273	1,757,377	1,149,150	1,091,088	769,961	753,174
Licenses and permits	62,952	89,559	59,612	126,530	90,066	74,672	82,916	12,608	13,051	11,677
Use of money and property	51,149	58,302	52,781	20,271	35,812	120,671	221,638	150,883	357,239	1,382,319
Intergovernmental	1,864,382	2,265,556	674,301	849,000	547,428	1,277,390	1,004,665	905,952	873,023	825,723
Charges for service	663,438	630,637	534,780	571,809	649,790	496,799	1,408,787	1,474,333	1,379,026	530,078
Miscellaneous	366,477	418,597	94,706	58,618	105,545	249,634	605,676	114,691	222,955	340,819
Total	\$ 8,439,881	8,855,933	6,510,610	6,554,295	6,549,527	7,651,115	7,632,852	7,049,559	6,117,353	6,205,069
Disbursements:										
Operating:										
Public safety	\$ 1,218,936	1,198,303	1,140,064	1,102,342	993,430	925,005	895,638	806,140	920,333	778,792
Public works	1,484,738	1,343,162	1,273,154	1,083,128	1,158,217	1,516,706	948,194	886,624	1,185,219	1,327,025
Culture and recreation	902,618	813,069	791,516	744,244	770,405	724,842	734,817	674,463	761,378	829,558
Community and economic development	1,242,204	1,512,821	1,432,539	5,066,991	1,497,676	1,261,826	1,309,821	1,712,442	609,503	310,974
General government	890,592	682,897	645,175	791,599	811,127	666,588	614,904	615,453	574,462	919,082
Debt service	1,417,707	1,456,870	1,458,333	1,478,480	1,541,536	1,547,240	1,351,643	1,080,663	1,188,129	931,079
Capital projects	5,102,454	2,557,642	1,090,797	1,546,448	1,248,400	2,785,860	2,072,884	1,471,827	4,172,811	1,629,160
Total	\$12,259,249	9,564,764	7,831,578	11,813,232	8,020,791	9,428,067	7,927,901	7,247,612	9,411,835	6,725,670

See accompanying independent auditor's report.

City of Osceola
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

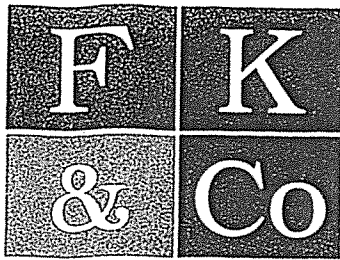
Schedule 5

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Direct:			
U.S. Department of Justice: Bulletproof Vest Partnership Program	16.607	N/A	\$ 1,010
Total - Direct			<u>1,010</u>
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Economic Development Authority: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (\$44,711 provided to subrecipients)	14.228	13-DTR-005 13-WS-031	44,711 3,593 <u>48,304</u>
U.S. Department of Interior: Fish and Wildlife Service: Iowa Department of Natural Resources: Clean Vessel Act Program	15.616	15-589	<u>92,328</u>
U.S. Department of Transportation: Iowa Department of Transportation: Highway Planning and Construction	20.205	13-STPES-104	<u>753,603</u>
Total - Indirect			<u>894,235</u>
Total			<u>\$ 895,245</u>

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Osceola under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Osceola has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osceola, Iowa (City) as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 17, 2017. Our report expressed unmodified opinions on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed an adverse opinion on the aggregate discretely presented component units due to the omission of the Osceola Public Library Foundation, Osceola Volunteer Firefighter's Association and the Osceola Municipal Waterworks.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-16 through II-D-16 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-E-16 and II-F-16 to be a significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

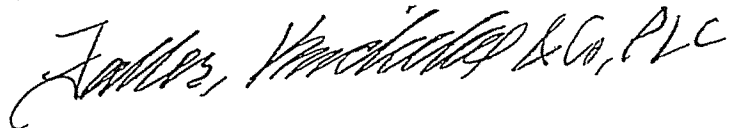
City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

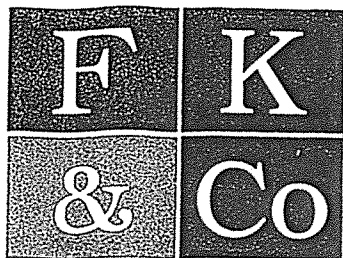
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa
January 17, 2017



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance

To the Honorable Mayor and
Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Osceola Iowa's (City) compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the City's major federal program for the year ended June 30, 2016. The City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

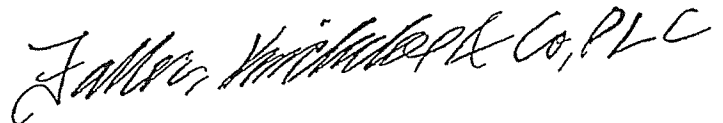
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified deficiencies in internal control over compliance we consider to be material weaknesses and another deficiency we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-A-16 and III-B-16 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-C-16 to be a significant deficiency.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa
January 17, 2017

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. An adverse opinion was issued on the financial statements of the aggregate discretely presented component units due to the omission of the Osceola Public Library Foundation, Osceola Volunteer Firefighter's Association and the Osceola Municipal Waterworks.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency and material weaknesses in internal control over the major program were disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.515.
- (g) The major program was CFDA Number 20.205 – Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Osceola did not qualify as a low-risk auditee.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-16 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although one to three individuals are involved in the accounting duties of the City of Osceola (City), there is insufficient segregation of duties to prevent one individual from having control over each of the following areas:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long-term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, posting and reconciling.
- 5) Accounting system – performing all general accounting functions and having custody of City assets.
- 6) Disbursements – preparing checks, signing checks and access to the accounting records.
- 7) Petty cash – custody, reconciling and recording.
- 8) Payroll – recordkeeping, preparation and distribution.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and date of the review.

Response and Corrective Action Planned – The City will review their control procedures to obtain the maximum internal control possible with the limited staff they have.

Conclusion – Response acknowledged.

II-B-16 Financial Reporting – Internal controls over financial reporting include actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by an other comprehensive basis of accounting. The City does not have the internal resources to prepare the full-disclosure financial statements required by an other comprehensive basis of accounting for external reporting purposes. While this circumstance is not uncommon for most small governmental entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – With a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and prepare full disclosure financial statements for external reporting purposes is difficult. However, we recommend the City continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

Response – The management officials will attempt to read relevant accounting literature and attend professional education courses to improve in the ability to apply accounting principles. However, it is not fiscally responsible to add additional staff at this time.

Conclusion – Response acknowledged.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

II-C-16 Preparation of Schedule of Federal Awards – Through review of the City's grant activity and the process of gathering information for required reporting, we determined that there is a need for improvement in the procedures related to the preparation of the Schedule of Expenditure of Federal Awards (SEFA), including the accuracy of the CFDA numbers and the accuracy and completeness of expenditure amounts reported on the SEFA. The City does not have a centralized process to gather the information required to be reported under the Uniform Guidance. As a result, the schedule contained errors and omissions.

Recommendation – We recommend the City create a process and designate an individual to track and accurately report all information required to be included on the SEFA.

Response and Corrective Action Planned – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

II-D-16 Material Adjustments - We proposed adjusting journal entries that were material to the City's financial statements. Adjusting journal entries were made to properly record various transactions in the General Fund and Capital Projects Fund. Adjustments were subsequently made by the City to properly record these transactions on the City's financial statements.

Recommendation – We recommend the City implement procedures to ensure all transactions are properly recorded on the City's accounting records.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

II-E-16 Timely Deposits – Receipts generally appear to be deposited only twice per week, resulting in receipts not being deposited in a timely manner.

Recommendation – To safeguard cash, receipts should be deposited intact on a timely basis, preferably daily.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

II-F-16 Chart of Accounts – The City is not consistently following the Uniform Chart of Accounts for City Governments in Iowa as recommended by the City Finance Committee. For example, several receipts, disbursements and transfers were improperly classified on the accounting system.

Recommendation – The City should implement procedures to ensure all transactions are recorded in accordance with the Uniform Chart of Accounts.

Response – We will implement this to the best of our ability.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 20.205: Highway Planning and Construction

Pass-through Agency Number: 13-STPES-104

Federal Award Year: 2013

U.S. Department of Transportation

Passed through the Iowa Department of Transportation

III-A-16 Preparation of Schedule of Federal Awards – The City does not have a centralized
(2016-001) process to gather the information required to be reported under OMB Circular A-133.
See item II-C-16.

III-B-16 Segregation of Duties over Federal Receipts – The City did not properly segregate
(2016-002) collection, deposit and record keeping for receipts, including those related to federal
programs. See item II-A-16.

III-C-16 Construction Contract – The City paid a construction contractor on this project
(2016-003) approximately \$16,000 more than the sum of the contract and change orders amounts.

Recommendation – The City should ensure amounts paid to contractors agree to the sum
of the contract and change orders amounts.

Response and Corrective Action Planned– This was an oversight on our part. The
amounts paid to the contractor in question were proper; however, a final change order
was not prepared to account for these cost difference. We will prepare and approve a
final change order on this project to account for this difference. In addition, in the future
we will ensure the amounts paid to the construction contractors agree with the sum of the
contract and change orders amounts.

Conclusion – Response acknowledged.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-16 Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the community and economic development, general government and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

The City amended its year ended June 30, 2016 budget on June 7, 2016. Chapter 384.18 of the Code of Iowa states, in part, “A city budget shall be amended by May 31 of the current fiscal year...”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, budget amendments should be amended by May 31 in accordance with Chapter 384.18 of the Code of Iowa.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

IV-B-16 Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-C-16 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-16 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-16 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-16 Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the Council minutes but were not.

One instance was noted where a claim was not approved by the City Council or published in the newspaper, as required by Chapter 372.13(6) of the Code of Iowa.

Some City Council minutes, and related claims, were not published within fifteen days of the City Council meetings, as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation - The City should implement procedures to ensure that all claims paid are approved by the City Council. In addition, the City should ensure that all this information is timely published in the newspaper as required by the Code of Iowa.

Response - We will implement these recommendations.

Conclusion - Response acknowledged.

IV-G-16 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

IV-H-16 Sewer Revenue Bonds – The following instances of non-compliance with the sewer revenue bond resolutions were noted:

- The sewer revenue bond resolutions require all users of the system, including the City, be charged for usage. The City is not currently charged for sewer usage.
- The sewer revenue bond resolutions require the City to make sufficient monthly transfers to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due. The City did not fund the sewer revenue bond sinking account each month as required.

Recommendation – The City should ensure all City departments pay for sewer usage, and should make transfers to the sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

IV-I-16 Property/Liability Insurance – The City levies a tax to pay for liability insurance coverage. The proceeds of this tax are used to pay all the costs associated with liability insurance coverage. The costs incurred by the sewer operations for liability insurance coverage have been included in the tax levy for liability insurance coverage.

Recommendation – Costs incurred for liability insurance coverage for the sewer operations should be charged to those funds and not be included in the tax levy.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

IV-J-16 Casino Lease – The City has various contracts and agreements with the Casino which states the City is to receive a total of 2.25% of the adjusted gross gambling receipts from the Casino. It does not appear the City has implemented procedures to ensure the monetary terms of this agreement with the Casino are met.

Recommendation – The City should implement procedures to ensure the monetary terms of the agreement with the Casino are met.

Response – We will evaluate this and determine the appropriate course of action.

Conclusion – Response acknowledged.

IV-K-16 Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. Chapter 403.19 of the Code of Iowa requires the date the City Council initially approved the debt be included on the TIF certification.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

Currently the City determines the amount of TIF rebate based on the total taxes paid. However, the economic development agreements state that the TIF rebates would be based on incremental property taxes. As a result, it appears the City may have paid too much in TIF rebates.

Recommendation – The City should consult with TIF legal counsel to resolve the above issue.

Response – We believe we have fixed all of the above issues in fiscal year 2017.

Conclusion - Response acknowledged.

IV-L-16 Public Improvements – The City did not publish a notice or hold a public hearing for a Street Improvement project as required by Chapters 26.12 and 362.3 of the Code of Iowa.

The City did not publish a notice to obtain sealed competitive bids for a Street Improvement Project, as required by Chapter 26.3 of the Code of Iowa.

Recommendation – Before entering into a contract for a public improvement with an estimated total cost in excess of \$50,000, the City Council should hold a public hearing and give notice at least four but not more than twenty days prior to the hearing. In addition, a notice to obtain sealed competitive bids should be obtained for applicable projects, as required by Chapter 26.3 of the Code of Iowa.

Response – We will publish the appropriate notice in the future, hold the public hearing and obtain sealed competitive bids as required.

Conclusion – Response acknowledged.

IV-M-16 Supporting Documentation – Instances were noted where supporting documentation was not always obtained prior to payment of invoices.

Recommendation – Supporting documentation should be obtained and retained prior to payment of the related invoices.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

IV-N-16 Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, to the Treasurer of State annually. The City did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

Recommendation – The City should ensure outstanding obligations are reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State annually, as required.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

City of Osceola

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

IV-O-16 Annual Urban Renewal Report AURR) – The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1.

However, various errors and omission were noted during our review of the AURR. For example, in one instance the City omitted a \$150,000 obligation, and some obligations on the AURR were overstated.

Recommendation – The City should ensure the debt amounts reported on the Levy Authority Summary of the AURR agree with the City's accounting records.

Response – These items will be corrected on next year's report.

Conclusion – Response acknowledged.